CARGOJET

2005 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada's domestic overnight air cargo capacity. Cargojet's network consolidates cargo received from over 200 customers and carries over 500,000 pounds of cargo each business night to thirteen major city centers across Canada. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2005, Cargojet operated 6,296 flights of which more that 99% arrived at destination within 30 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.

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Financial Highlights

Supplementary Financial Information[(1)] Year ended December 31 (in thousands of dollars)	2004	2005
	(unaudited)	(unaudited)
Revenues	$ 101,065	$ 117,878
Direct expenses	79,925	92,663
EBITDA	9,595	14,143
Direct expenses/Revenues	79.1%	78.6%
EBITDA/Revenues	9.5%	12.0%

(1)Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the years ended December 31, 2005 and 2004, and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the year ended December 31, 2005 and 2004 and include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations

Supplementary Financial Information (in thousands of dollars)	Twenty-two day period ended June 30[(1)]	Three months ended September 30	Three months ended December 31	2005[(2)]
	(unaudited)	(unaudited)	(unaudited)	(audited)
Revenues	$ 6,876	$ 29,513	$ 32,906	$ 69,295
Direct expenses	5,132	22,629	27,329	55,090
EBITDA	1,078	4,298	3,096	8,472
Distributable cash	905	2,702	2,790	6,397
Cash distributions	600	2,457	2,457	5,514
Total assets	$ 128,882	$ 125,849	$ 125,420	$ 125,420
Long term debt	22,010	22,750	23,180	23,180
Unitholder's equity	62,324	61,097	58,622	58,622
Direct expenses/Revenues	74.6%	76.7%	83.1%	79.5%
EBITDA/Revenues	15.7%	14.6%	9.4%	12.2%
Cash distributions as a percentage of distributable cash	66.3%	90.9%	88.1%	86.2%

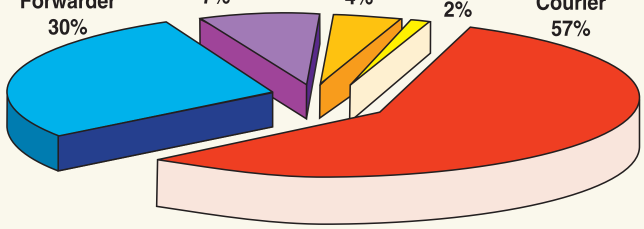
(1)These are the results of operations of the Fund for the twenty-two day period from June 9, 2005, (commencement of operations), to June 30, 2005.

(2)These are the results of operations of the Fund for the 206 day period from June 9, 2005 (commencement of operations) to December 31, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005.

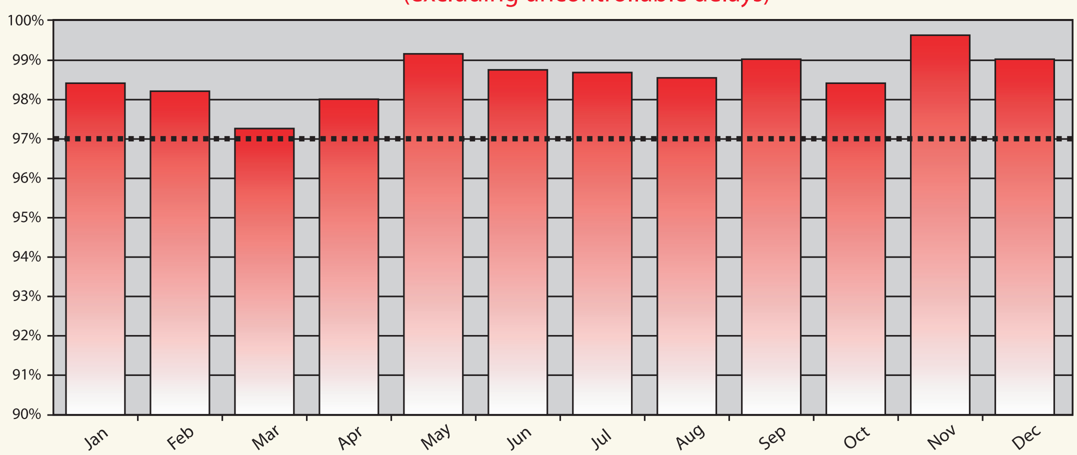
Canada's Leading Domestic Premium
Overnight Air Cargo Network

FACTS

2005 Overnight Co-Load Network Revenue by Market Segment



DOMESTIC OVERNIGHT NETWORK
2005 On Time Performance Within :15 min
(excluding uncontrollable delays)



Source: Flight Following Database

ISO 9001:2000

A Member of The International Air Cargo Association

ON TIME PERFORMANCE

President's Message to the Unitholders

CARGOJET

Canada's Cargo Airline

This past year has been a busy, challenging and exciting one for the Cargojet Income Fund. Through the concerted efforts of our entire team, we have achieved our primary corporate objectives. We converted the Company into an Income Fund in the late second quarter of the year and handled record volumes in the third and fourth quarters. We added several new customer contracts and expanded our business into international markets and was the proud recipient of several industry awards. Most importantly, we have met our customer's expectations and our distribution targets to all unitholders.

These accomplishments have strengthened our team, enhanced our service levels and improved our financial status. Cargojet is well positioned as the dominant Canadian air cargo service provider and continues to pursue opportunities to grow its business both organically and through accretive acquisitions.

On June 9, 2005, Cargojet's corporate structure was transformed by the conversion of the business into an Income Fund and the successful initial public offering that issued 5,954,545 trust units at $10.00 per unit. The units trade on the Toronto Stock Exchange.

The conversion of the business into the Cargojet Income Fund and our suitability to the income trust structure was evident by our consistent strong cash flows. Our dominant market position, long-term customer contracts, reliable service levels helped us attain a unique and profitable business model and redefine the air cargo business. The former shareholders of the Company continue to own a significant economic interest in the business and continue to lead the executive management team.

This report will discuss the performance of the Fund for the period from the completion of the initial public offering on June 9, 2005 to December 31, 2005.

The trustees of the Cargojet Income Fund have set the Fund's distribution policy to ensure the stability and sustainability of payments to unitholders. The Fund intends to pay cash distributions consistent with the terms of its prospectus. The business is managed on a conservative basis with a payout ratio consistent with the underlying ability to meet any monthly fluctuations brought on by seasonality, unforeseen additional expenses and/or maintenance capital expenditures.

The company continues to dominate the domestic overnight air cargo market and continues to generate stable revenue streams through its long-term customer contracts. Service levels have consistently exceeded 99% on-time reliability in this extremely time-sensitive business and the company experienced record volumes in 2005.

In 2006, we anticipate that the economic climate will continue to remain robust and demand for time-sensitive air cargo services will remain very strong both domestically and internationally. Domestic air cargo capacity continues to shrink amongst scheduled passenger airlines. Cargojet is well positioned to benefit from these trends.

Finally, on behalf of all of our employees and the Board of Trustees, I would like to take this opportunity to thank all of our unitholders, for their enduring and continued commitment to Cargojet and our collective success.

On behalf of the Board,

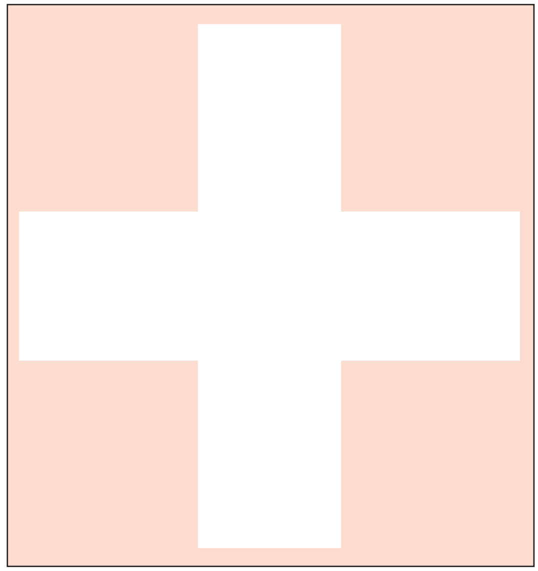
Ajay Virmani
President and Chief Executive Officer

March 2006

Cargojet Reaches Out to Communities Across Canada

TSUNAMI RELIEF

In January 2005, Cargojet employees across the country joined together and raised over $10,000.00 for children who were victims of the Tsunami in South East Asia. All money raised was donated to the Canadian Red Cross “Save the Children Campaign”.



UNITED WAY FUND RAISING - AIRCRAFT PULLS

Cargojet and its employees participate in various United Way Fundraising activities at various airports across the country each year. One unique and popular event is the aircraft pull. Employees and customers join together and fundraising teams receive pledges to see who can pull an aircraft the furthest distance. In one local fundraising event, the United Way had set a goal of raising $15.7 million so the challenge was for each team to pull the aircraft 15.7 feet in the least amount of time. We are proud to have participated and contributed to the United Way achieving this goal!

AJAY VISITS WINSTON CHURCHILL SECONDARY SCHOOL

Ajay Virmani, President and CEO of Cargojet was asked to speak to Grade 12 International Business students. He gave an inspirational and motivational talk inspiring students to have a Sense of purpose, Education, Creativity, Responsibility Excellence, and Time management - his own SECRET recipe of success.

Cargojet Leaders in Safety Management System

In 2005, Transport Canada issued a revised Civil Aviation Framework for Canada and committed to the implementation of Safety Management Systems (SMS) in aviation organizations. At the most fundamental level the aim is to improve safety through pro-active management rather than reactive compliance with regulatory requirements.

Holders of Transport Canada issued operation certificates will be required to implement a Safety Management System. The implementation date for various parts of the Canadian Aviation Regulations will vary based on the progress of the Notice of Proposed Amendments (NPA) through the regulatory system. The expected result of this initiative is the improvement of safety practices fostering stronger safety cultures within the civil aviation industry.

SMS can be defined as “A systematic, explicit, comprehensive and proactive process for managing safety risk that integrates operations and technical systems with financial and human resource management to achieve safe operations and compliance with the Canadian Aviation Regulations.”

The Fund has appointed a Director, Safety Management Systems and Security to oversee the implementation and on-going support of this critical safety function. This position reports directly to the President & CEO. The corporate safety culture and execution of these new Transport Canada SMS plans are currently well entrenched and ahead of schedule.

Customer Service

One of the key components to the success of the Fund achieving its dominant market share in the air cargo industry is its focus on Customer Service. The Fund prides itself on providing first class service and a relentless attention to detail. We operate in an extremely time-sensitive business, where minutes literally count, for our customers - as it allows them to deliver their shipments to their customers on time.

The Fund ensures that all levels within the organization are educated about the importance of on-time performance and the reasons why customers use its air cargo network. We routinely host meetings with specific employee groups such as pilots, aircraft maintenance and ground handling staff, to provide updates on company results and to impress upon them the specific requirements of individual customers. Key performance indicators measure our success in various customer service areas and are shared with our employees and customers on a monthly basis. The Fund has been recognized with several industry awards in the recent year highlighting its commitment and excellence in customer service.

InfoJet - The New IT System

Cargojet began development of a new IT system to replace its existing customer booking, load planning and invoicing systems in 2005. This new operational system, "InfoJet", is a simple and easy to use internal air cargo management system. This web enabled system is comprehensive, scalable and will meet the growing needs of our business. The implementation of this system will support the network wide operations of Cargojet at all of our stations allowing us to manage the key customer service functions such as bookings, capacity, load planning, flight planning, airwaybill stock control in a more efficient and integrated fashion. The system will allow for better controls, improve operational productivity and enable us to meet all company, industry and IATA standards. It will provide for improved operational performance through reduction in errors and discrepancies and eliminate duplication and redundancies.

This new system will be launched in the early second quarter of 2006, after almost one year of development and internal training and will also provide more timely and accurate management information reports and other management tools to allow us to manage the business more cost-effectively.

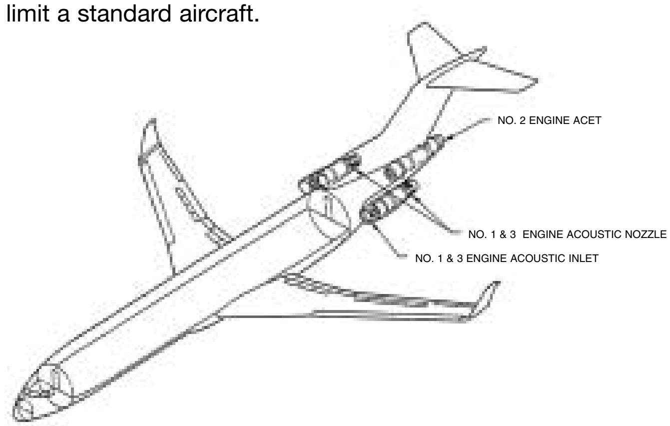
Continuing to Upgrade the Fleet of Boeing 727s

The latest addition to the Cargojet fleet is 727-200, C-GCJY which entered service on February 20, 2006.

The significant difference on this aircraft is the incorporation of the Quiet Wing system. This modification incorporates three primary changes to the aircraft: addition of winglets, adjustment of the trailing edge wing flaps, and modification of the engine exhaust nozzles.

The purpose of the winglets and flap modifications is to improve the aerodynamic efficiency of the wing. This results in a typical fuel burn decrease of 6%, increased payload range in the order of 450 nautical miles, a 2000 ft. increase in maximum cruse altitude, improved climb performance, and a reduction in takeoff and landing field length allowing higher payloads in and out of airports with shorter runways. The engine exhaust modifications allow the aircraft to meet Stage 3 noise limitations and also contributes to the aerodynamic performance.

This aircraft will provide a reduction in operating costs with the added benefit of improved payload capability particularly at airports where runway performance would limit a standard aircraft.



AWARDS

September 2005 – "Cargo Airline of the Year" – Shipper's Choice Award – Cargojet awarded as Canada's Cargo Airline of 2005 by the Canadian Transportation and Logistics Magazine

June 15, 2005 – Cargojet was the recipient of the Air Cargo World Excellence Award the by the industry publication, Air Cargo World. Cargojet achieved superior ratings in customer service, performance, value added service and information technology.

January 17, 2005 – Cargojet has been awarded one of Canada's 50 Best Managed Companies, by Deloitte & Touche, National Post, CIBC Banking and Queen's University.

November 2004 – "Entrepreneur of the Year" – Ajay K. Virmani named as Entrepreneur of the Year by Ernst Young.

September 2003 – "Cargo Airline of the Year" – Shipper's Choice Award – Cargojet awarded as Canada's Cargo Airline of 2003 by the Canadian Transportation and Logistics Magazine

September 2002 – "Cargo Airline of the Year" – Shipper's Choice Award – Cargojet awarded as Canada's Cargo Airline of 2002 by the Canadian Transportation and Logistics Magazine.

ON TIME PERFORMANCE

CARGOJET

Providing First Class Service

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection of its employees and unitholders. The Fund's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Fund are effectively managed so as to enhance unitholder value. The Fund has adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices to ensure it meets its disclosure requirements.

Code of Ethics

To ensure we meet the highest standards of governance, the Board of Trustees has adopted and is guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to everyone from the Board of Trustees to all employees of Cargojet. It incorporates all of our guiding principles and provides a frame of reference for dealing with complex and sensitive issues. Any non-compliance with the Code is to be reported to Cargojet's Human Resources. The Trustees monitor compliance of the code by obtaining reports from Cargojet's Human Resources Manager as to any matters reported under the Code.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to trustees, directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

Board of Trustees

Cargojet is governed by its Board of Trustees, which is elected annually by the unitholders. The Board currently has five members, the majority of who are defined as independent and two are management.

Board Committees

The Board of Trustees has established three committees to assist the board with the analysis of issues and allow more time for the full board to discuss and debate matters of business.

Audit Committee

The Board's audit committee was established to assist the Board of Trustees by reviewing, with its auditors, the financial reports and other financial information provided to the public, internal controls regarding finance and accounting, and general oversight of the Fund's auditing, accounting and financial reporting.

The committee is made up of three independant Trustees. Its responsibilities include:

- Review annual and quarterly financial statements with management and independent auditors prior to the release or filing of reports
- Review and discuss with management all significant issues regarding corporate risk
- Recommend independent auditors to the Board, ensure independence, and review the performance of the independent auditors
- Review and discuss results and significant findings by the independent auditors and recommend audited statements for inclusion in the Fund's Annual report.

Corporate Governance Committee

The Corporate Governance Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Overseeing the Fund's Code of Ethics and Disclosure Policy
- Implementation of Corporate Governance Policies

Compensation and Nominating Committee

The Compensation and Nominating Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Assess Board membership needs and recommend board nominees
- Ongoing orientation and education of trustees and directors
- Assess the Fund’s management succession plan
- Assess the Fund’s compensation plan for officers and senior management

Disclosure Policy

To ensure transparency and quality disclosure to our Unitholders, we have a policy that outlines the principles of disclosure of material information as well as identifying designated spokespersons and maintaining confidentiality. The policy also outlines how we manage media relations, rumours, contacts with analysts, investors and the media, quiet periods, posting of information on Cargojet’s website, and communication and enforcement. The Disclosure Policy applies to all employees and parties related to Cargojet and is the responsibility of the Board's Corporate Governance committee.

More information on Cargojet corporate governance practices can be found in our Management Proxy Circular.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operation

For the 251 Day Period
Ended December 31, 2005

The following is a discussion of the consolidated financial condition and results of operations of the Cargojet Income Fund (the "Fund") for the 251 day period ended December 31, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. (the "Company" or "Cargojet") on June 9, 2005. Included in the Fund's results of operations are the results, of the corporate subsidiary Cargojet, for the 206 day period from June 9, 2005, (commencement of operations), to December 31, 2005. To provide meaningful information to the reader, the following will refer to the comparative operating results for the years ended December 31, 2005 and 2004, which include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund. This discussion should be read in conjunction with the Fund's Management Discussion and Analysis (MD&A) as included in the prospectus dated June 1, 2005. The Fund acquired 75% of the outstanding common shares of Cargojet Holdings Ltd. effective June 9, 2005 in connection with its initial public offering of trust units. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

Management has evaluated the effectiveness of the Funds' disclosure controls and procedures as of December 31, 2005 and has concluded that these are effective in providing reasonable assurance that material information relating to the Fund has been appropriately disclosed.

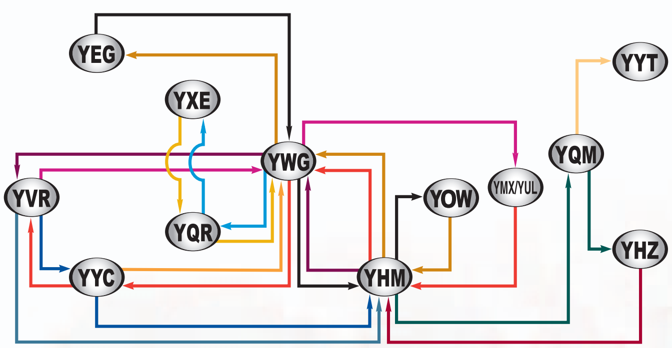
The effective date of the MD&A is March 14, 2006. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we", and "our" mean Cargojet Income Fund.

References to "EBITDA" [A] are to earnings before interest, income taxes, depreciation, amortization, payments under an employee profit sharing plan, stock based compensation expense, non-controlling interest and adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA [A], and Distributable Cash [B] are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA [A], and Distributable Cash [B] may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA [A] and Distributable Cash [B] should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating, investing, and financing activities as measures of liquidity and cash flows.

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the year ended December 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the year ended December 31, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

FORWARD LOOKING STATEMENTS

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions “anticipate”, “believe”, “plan” “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our Prospectus filed on June 1, 2005 with the regulatory authorities.



CORPORATE OVERVIEW

The Fund is Canada’s leading provider of time sensitive overnight air cargo service and operates a co-load network that management believes constitutes approximately 50% of Canada’s dedicated domestic overnight air cargo market. The Fund operates its network from coast to coast transporting over 500,000 pounds (226.8 tonnes) of volumetric time-sensitive air cargo to thirteen major cities in Canada each business night. The Fund’s co-load network consolidates cargo received from well over 200 customers and transports such cargo to the appropriate destination in a cost efficient and reliable manner. The Fund also operates dedicated aircraft on an ACMI (Aircraft, Crew, Maintenance & Insurance) basis for various customers within Canada and Internationally and recently began operations on a route operating between the USA and Bermuda five days per week. The Fund monitors key performance indicators and uses that information to reduce costs and improve the efficiency of its services. During the year ended December 31, 2005, the Fund operated 6,296 flight legs, of which more than 99.0% arrived at destination within 30 minutes of scheduled arrival time. The Fund makes cash distributions to unit holders based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash. The declaration of Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

RECENT EVENTS

Economic and industry factors affecting the Fund remain largely unchanged from December 31, 2004 other than the events otherwise described.

During the past year customer contracts were renewed with two major customers on multiple year terms and with increases equal to or above CPI. A new five-year customer contract was also entered into in the last quarter of 2005, which includes minimum daily revenue guarantees and revenue of approximately $0.7 million per annum. In addition, contract extensions were successfully negotiated with Cargojet's two largest customers during the year. There are no customer contracts up for renewal in the 2006 fiscal year.

A general price increase of 5% was implemented effective August 1, 2005 and a subsequent 10% increase came into effect on January 1, 2006 for all non-contract customers.

In July 2005, The Canadian Transportation Agency (CTA) ruled in favour of Cargojet's objection to the application by a major Canadian passenger airline to provide domestic air cargo service using foreign registered aircraft and flight crews, as an extension of its international service.

The ACMI contract previously held with this major Canadian airline was replaced directly with three major customers to provide additional lift and capacity to Western Canada on a nightly basis effective August 2005. Contractual agreements, with minimum daily revenue guarantees, were signed with these three customers, which transferred all of their daytime air cargo business, previously traveling with the other airline, to the Fund.

Fourth quarter 2005 revenues increased over 2004 with higher volumes being handled from regular contract customers. Cargojet also entered into an agreement with Canada Post Corporation to operate dedicated charter flights to carry increased seasonal mail volumes generating revenue of just over $0.6 million.

Cargojet introduced a new service, operating a dedicated cargo aircraft between Newark, New Jersey, USA and Hamilton, Bermuda ("international route") in November 2005. This provides a five day per week air cargo service for multiple customers and is patterned after the domestic business model that Cargojet has successfully built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass-through increases in fuel costs.

Additional interline agreements were signed with eleven new domestic and international airlines to expand the scope of our geographic coverage during 2005. Cargojet now has a total of twenty-two interline agreements and 2005 interline revenues increased 24% over the previous year.

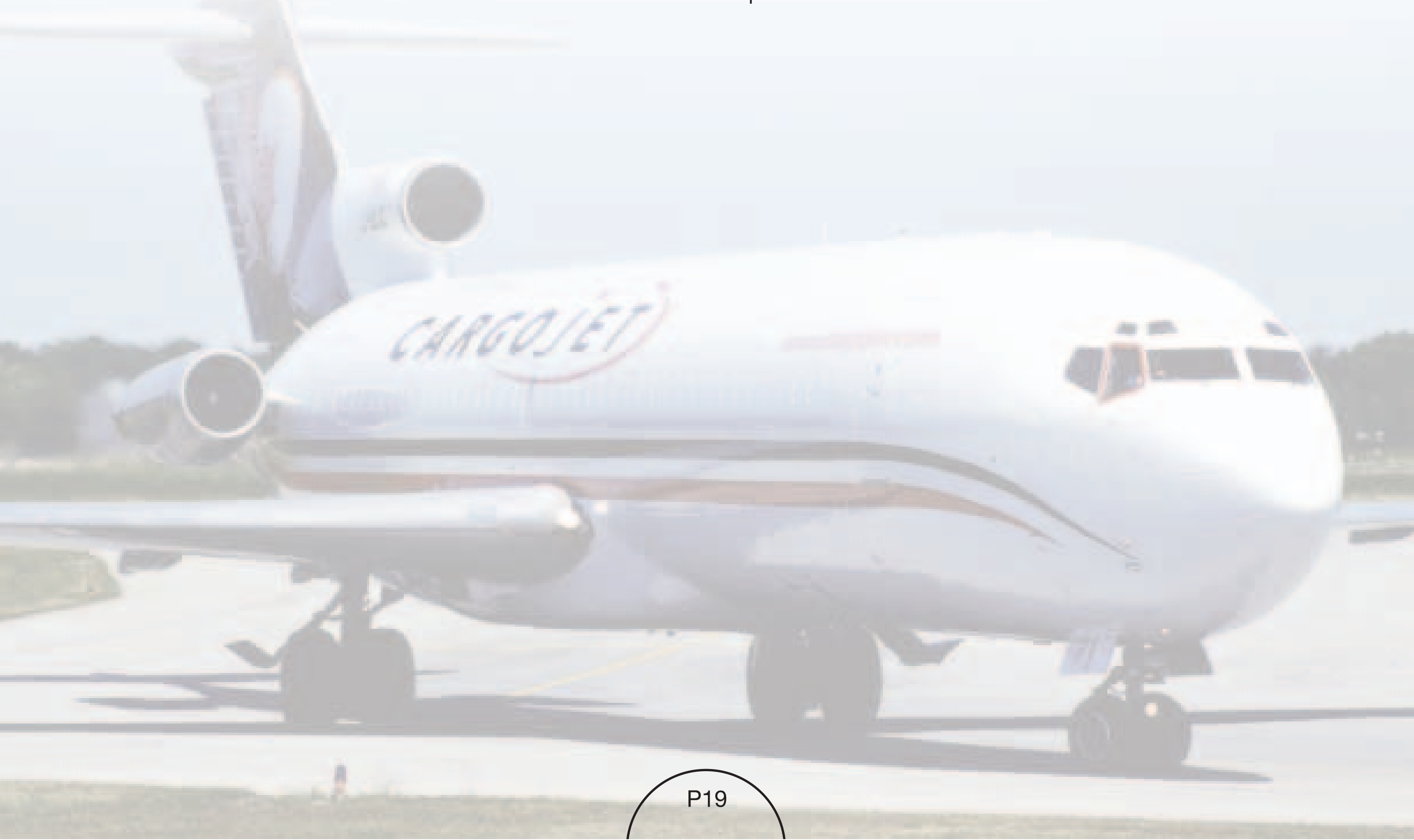
REVENUES

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a fixed space and weight allocation on the Fund's network and a corresponding fixed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an ad hoc basis to contract and non-contract customers. For both the 251 day (operationally 206 days) period ended December 31, 2005, approximately 75% of the Fund's overnight air cargo revenue was generated by guaranteed contract, with the remaining space available sold on a non-guaranteed basis.

The Fund also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. Typically this revenue helps to support lower demand flight legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.

To enhance its revenues, the Fund offers a specialty charter service typically during the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America and the Caribbean.

The Fund also provides and operates dedicated aircraft on an ACMI basis for UPS Supply Chain Solutions Inc., formerly known as Menlo Worldwide Inc. and BAX Global Inc. The airline operates these aircraft on dedicated routes where both customers are responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes. In addition, the Fund also provides an ACMI passenger service for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis.



EXPENSES

Expenses consist of fixed and variable expenses including aircraft and ground support, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter and ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment, and building leases.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business, which includes functions such as load scheduling, flight operations coordination, client relations, and administration and information systems. The Fund's administrative costs primarily consist of payroll, occupancy costs, and professional fees (such as audit and legal fees). The Fund's administrative staffing and associated costs are maintained at a level that the Fund deems appropriate to manage and support the size and nature of its current business activities.

KEY FACTORS AFFECTING THE BUSINESS

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the prospectus of the Fund dated June 1, 2005.

The following includes a discussion of the results of operations for the 251 day period and year ended December 31, 2005. To provide meaningful information to the reader, the comparative operating results for the year ended December 31, 2005 and December 31, 2004 include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund.

HIGHLIGHTS

- Revenues increased 16.6% for the year ended December 31, 2005 in comparison to the year ended December 31, 2004.
- EBITDA [(A)] increased 47.4% for the year ended December 31, 2005 in comparison to the year ended December 31, 2004.
- EBITDA [(A)] increased to 12.0% of revenue for the year ended December 31, 2005 in comparison to 9.5% for the year ended December 31, 2004.

RESULTS OF OPERATIONS (IN THOUSANDS OF DOLLARS)

	Period from inception April 25 to December 31, 2005 (251 days) (2)
	(audited)
Revenue	$ 69,295
Direct expense	55,089
	14,206
Selling, general and administrative expenses	
Sales and marketing	396
General and administrative	7,730
Interest	959
Amortization of capital assets	178
Amortization of intangible assets	5,762
	15,025
Loss before income taxes and non-controlling interest	(819)
Future income tax recovery	1,434
Earnings before non-controlling interest	615
Non-controlling interest	(154)
Net earnings	461
Distributions declared in the period	(4,136)
Deficit, beginning of period	-
Deficit, end of period	$ (3,675)
Earnings per trust unit (basic)	$ 0.07
Earnings per trust unit (diluted) (1)	$ 0.07
Average number of trust units outstanding basic (in thousands of units)	6,699
Average number of trust units outstanding diluted (in thousands of units)	8,932
	(unaudited)
Net earnings before non-controlling interest	$ 615
Add:	
Interest	959
Future income tax recovery	(1,434)
Amortization of capital assets in direct expenses	1,553
Amortization of capital assets	178
Amortization of intangible assets	5,762
Aircraft heavy maintenance accrual	1,459
Less: Aircraft heavy maintenance expenditures	(620)
EBITDA (A)	$ 8,472
EBITDA (A)	$ 8,472
Maintenance capital expenditures - other than engines	896
Maintenance capital expenditures - engine purchases (3)	220
Interest	959
Distributable cash (B)	$ 6,397
Cash available for distribution (95% of distributable cash)	$ 6,078
Distributable cash per unit - diluted (1)	$ 0.716
Distributable cash available per unit (1)	$ 0.680
Cash distributions	$ 5,515
Cash distributions as a percentage of distributable cash	86%
Cash distributions as a percentage of cash available for distribution	91%

(1) Diluted earnings per trust unit. For the purpose of determining diluted earnings per trust unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

(2) These are the results of operations of the Fund for the 206 day period from June 9 to December 31, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005.

(3) Maintenance capital expenditures - engines include the purchase of two engines during the three months ended September 30, 2005. These expenditures were offset by the proceeds of sale of the old engines per the sales agreement dated October 15, 2005 for $515,003.

RESULTS OF OPERATIONS (IN THOUSANDS OF DOLLARS)

Supplementary Financial Information [1]

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the year ended December 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the years ended December 31, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

	Year Ended December 31, 2005 (unaudited)	Year Ended December 31, 2004 (unaudited)
Revenues	$ 117,878	$ 101,065
Direct expenses	92,663	79,925
	25,215	21,140
Selling, general and administrative expenses		
Sales and marketing	892	989
General and administrative	13,503	11,719
Interest	1,564	1,200
Amortization of capital assets	299	275
Amortization of intangible assets	5,762	-
Employee profit sharing plan [2]	2,000	2,014
Stock-based compensation [2]	4,466	-
	28,486	16,197
(Loss) Earnings before Income taxes and Non-controlling Interest	(3,271)	4,943
Income taxes	(688)	1,029
(Loss) Earnings before Non-controlling Interest	(2,583)	3,914
Non-controlling Interest	154	-
Net (loss) earnings	(2,737)	3,914
Add:		
Interest	1,564	1,200
Amortization of capital assets in direct expenses	2,580	1,955
Amortization of capital assets	299	275
Amortization of intangible assets	5,762	-
Non-controlling Interest	154	-
Income taxes	(688)	1,029
Employee profit sharing plan [2]	2,000	2,014
Stock based compensation expense [2]	4,466	-
Aircraft heavy maintenance accrual	2,287	2,639
Less: Aircraft heavy maintenance expenditures	(1,544)	(3,431)
EBITDA [A]	$ 14,143	$ 9,595

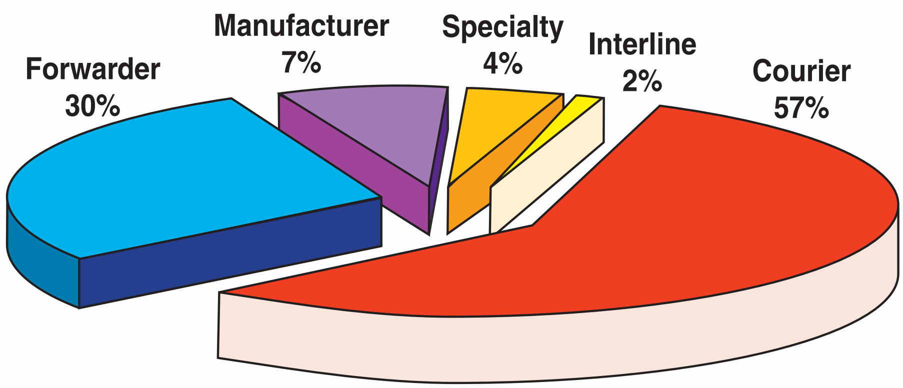
(1) The Supplementary Financial Information above is provided only for comparative purposes and does not reflect the current structure of the Fund.

(2) The Employee profit sharing plan and the stock-based compensation plan existed in the predecessor company; however, they were discontinued at the closing of the initial public offering.

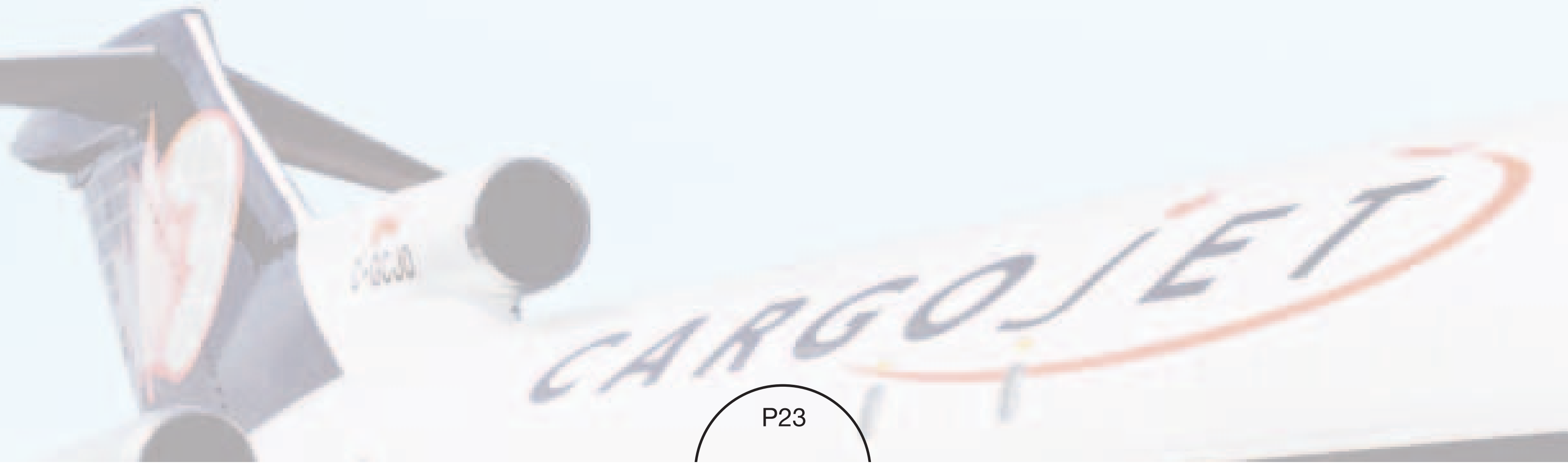
Review of Operations (For the 251 day period and Year Ended December 31, 2005)

REVENUES

2005 Overnight Co-Load Network Revenue by Market Segment



Total revenue was $69.3 million for the period June 9 to December 31, 2005. Revenue relating to the overnight cargo service accounted for 91.1% of the total revenue for the period June 9 to December 31, 2005. Total revenues for the year ended December 31, 2005 increased by $16.8 million or 16.6% to $117.9 million, compared to the year ended December 31, 2004. Revenues from the overnight network for the year ended December 31, 2005 increased by $11.0 million or 11.6% to $105.6 million as compared to 2004. The increase over 2004 levels is as a result of the addition of new customer business, growth of existing customers' volumes and an increase in fuel surcharges. ACMI cargo revenues were $2.7 million for the period June 9 to December 31, 2005. Revenue related to the ACMI cargo service accounted for 3.9% of the total revenue for the period June 9 to December 31, 2005. ACMI cargo revenues increased by $4.1 million or 130.6% to $7.2 million for the year ended December 31, 2005 as compared to 2004. One of the ACMI routes started in September of 2004 was terminated in August 2005 and this business was converted to overnight cargo service revenue. In addition, one other ACMI route was temporarily halted by mutual request of the Fund and the customer for a forty-five day period during the fourth quarter to allow for better utilization of the aircraft servicing this route onto higher yielding domestic routes to handle peak period volumes. Revenue from the international flights from Newark to Bermuda represented an increase of $1.2 million during the year and ACMI passenger revenues increased by $0.5 million or 13.3%.



DIRECT EXPENSES

For the period June 9 to December 31, 2005 direct expenses were $55.1 million, representing 79.5% of revenue. Direct expenses for the year ended December 31, 2005 increased by $12.8 million or 16.0% to $92.7 million, compared to $79.9 million for the comparable period in 2004. Fuel expense increased by $8.7 million or 34.0% for the year ended December 31, 2005 compared to 2004. Fuel cost as a percentage of revenue was 29.1% for the year ended December 31, 2005, as compared to 25.4% for the comparative period in 2004. Fuel cost increases were passed through to the customers as a fuel surcharge and billed to customers on a cost recovery basis only. The international route commenced November 14, 2005 with higher operational costs due to the initial startup of this service and as a result overall margins were reduced. It is anticipated that these costs will reduce and margins will improve. Also, one of the Fund's largest customers received a credit equal to $0.4 million during the fourth quarter as a rate concession for higher than anticipated volumes and entering into a significant contract extension. The Fund also began operating a new scheduled flight, as part of its overnight cargo service, effective August 2005. This flight replaced the capacity previously provided on an ACMI basis to a major scheduled airline and the Fund entered into new agreements with three major customers to handle the additional air cargo. The initial margins on this business were less than traditionally experienced on the overnight network however this flight provides additional growth capacity for the Fund on key head haul routes. The Fund anticipates improving yields and margins on this business moving forward. The number of block hours increased by 11.5% to 11,309 due mainly to the addition of two ACMI contracts that came into effect late in the third quarter of 2004, as well as the international flights which began in the fourth quarter of 2005. The ACMI contracts began in September of 2004 and represented an increase of 1,047 hours during 2005 as compared to 2004. The international flights represented an additional 186 block hours in the fourth quarter of 2005. Aircraft navigation and landing fees increased by $0.8 million or 8.8% to $10.4 million.

Crew costs increased by $0.8 million or 11.7% to $7.6 million. These increases were primarily a result of the increased hours required to fly and service the new ACMI customers, and the international route. Linehaul expense increased by $1.6 million or 33.5% to $6.3 million as a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers. Heavy maintenance accruals decreased by $0.3 million to $2.3 million, or 11.5% for the year ended December 31, 2005 as compared to the comparable period in 2004. Actual heavy maintenance expenditures for the year ended December 31, 2005 decreased by $1.9 million to $1.5 million from the comparable period in 2004.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For the period June 9, 2005 to December 31, 2005 selling, general and administrative expenses were $8.1 million or 11.7% of revenue. Selling, general and administrative expenses for the year ended December 31, 2005 increased by $1.7 million to $14.4 million or 13.3% compared to the year ended December 31, 2004. Selling, general and administrative expenses for the year ended December 31, 2005 represented 12.2% of revenue as compared to 12.6% in 2004. Decreases in marketing expenses, travel, consulting fees, were offset by increases in public company related expenses, professional fees, and employee salaries. Employee salaries and related benefits increased by $1.7 million or 22.6% to $9.3 million for the year ended December 31, 2005 as compared to 2004, as a result of new employees being added to support the growth of the business.

EBITDA [(A)]

For the period June 9 to December 31, 2005 EBITDA [(A)] was $8.5 million or 12.3% of revenue. EBITDA [(A)] for the year ended December 31, 2005 increased by $4.6 million or 47.4% to $14.1 million compared to the year ended December 31, 2004. EBITDA [(A)] increased to 12.0% of revenue for the year ended December 31, 2005 in comparison to 9.5% for the year ended December 31, 2004. The improvement in EBITDA [(A)] can largely be attributed to the increase in revenue while utilizing the existing fixed cost structure of the network. Although EBITDA as a percentage of revenue increased year over year, it was impacted negatively by the following. The international route from Newark to Bermuda commenced with higher operational costs due to the startup of this service. It is anticipated that these costs will reduce and margins will improve as a result. Additionally, one of the Fund's largest customers received a credit equal to $0.4 million as a rate concession for higher than anticipated volumes and entering into a significant contract extension.

The Fund also initiated an additional overnight flight effective August 2005 to handle the additional volumes from some existing customers that were previously handled by another carrier. The margins on this business were less than those experienced on the overnight network. The rates associated with this flight are currently under review with the customers. Additional deicing costs were experienced during the month of December and amounted to an increase over the same period in the prior year of approximately $0.2 million. Heavy maintenance actual expenditures were lower for the year ended December 31, 2005 as compared to the year ended December 31, 2004. Heavy maintenance accruals added back to earnings in 2005 were $2.3 million as compared to $2.6 million in 2004. Actual heavy maintenance expenditures incurred in 2005 were $1.5 million as compared to $3.4 million in 2004.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Amortization, Interest, Income Taxes, Cash Available for Distribution, and Non-controlling Interest are not Comparable for the Following Reasons

AMORTIZATION

Amortization is not comparable for prior periods due to the change in the Fund's capital structure relative to its predecessor Cargojet Holdings Ltd. Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses) arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets include goodwill of $46.2 million, customer relationships of $38.1 million, licenses of $1.0 million and non-compete agreements of $2.7 million. Amortization of intangible assets recorded for the period from June 9, 2005 to December 31, 2005 was $5.8 million. Amortization of capital assets is consistent with past practices of the predecessor company Cargojet Holdings Ltd., and for the period June 9 to December 31, 2005 totaled $1.7 million, out of which $1.6 million was included in direct expenses.

INTEREST

Interest expense is not comparable for prior periods due to the change in the Fund's capital structure. Interest expense was $1.0 million or 1.4% of revenue for the period June 9 to December 31, 2005. Interest expense is calculated as the average balance of the Fund's credit line at its fixed rate of interest of 6.89%. It also includes interest expense of $0.1 million on an amount payable to The Cargojet Group of Companies Employee Profit Share Plan Trust. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

INCOME TAXES

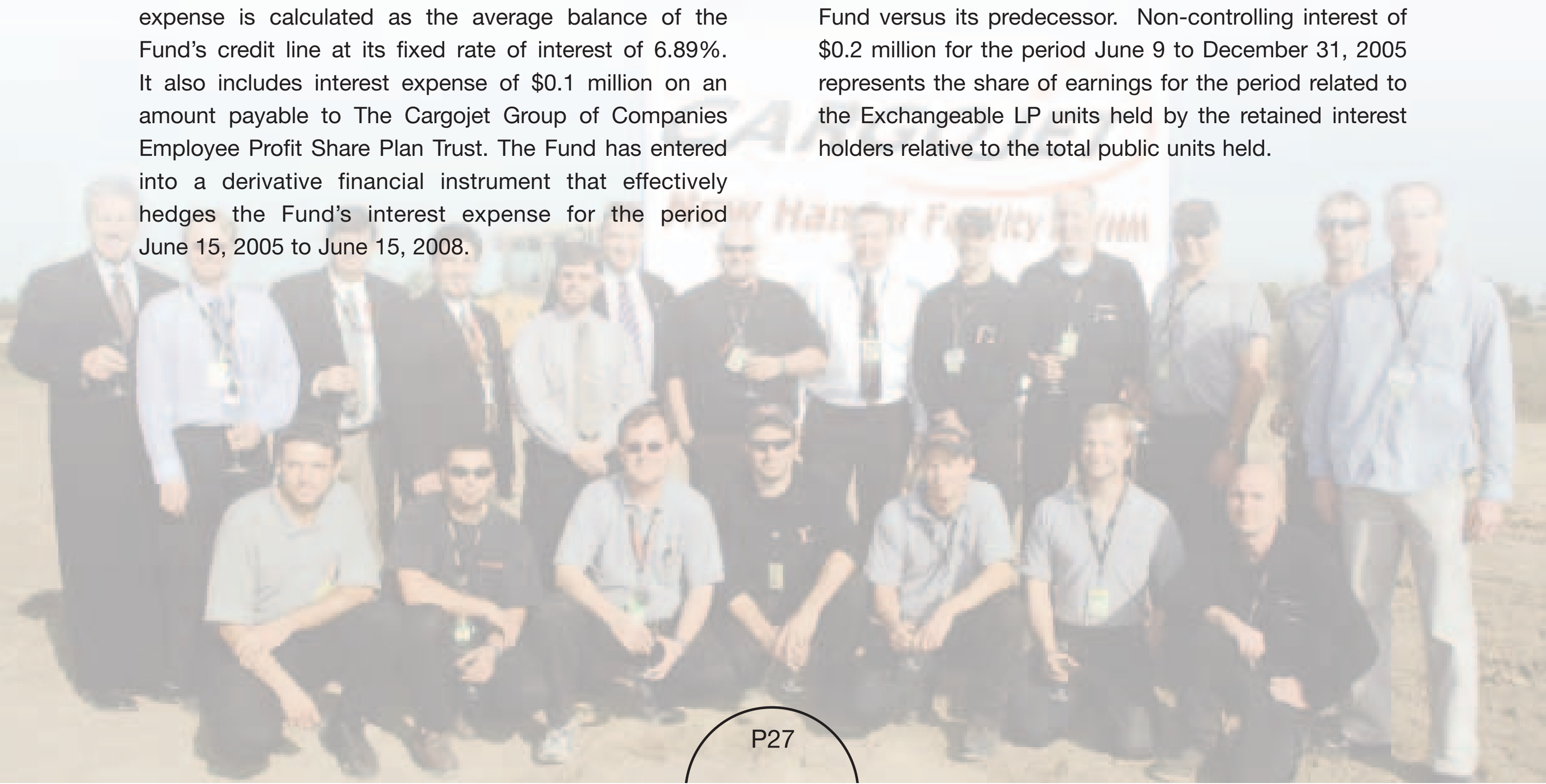
Income taxes are not comparable for the prior periods due to the change in the tax structure of the Fund versus its predecessor. The future income tax recovery of $1.4 million during the period June 9 to December 31, 2005 represents the calculation of the reversal of temporary differences between the financial reporting and tax basis calculated at the effective income tax rates with respect to these differences for the period. The Fund is not otherwise subject to income taxes to the extent that its taxable income is paid or payable to a unit holder.

CASH AVAILABLE FOR DISTRIBUTION

Cash available for distribution is not comparable for prior periods due to the change in the Fund's capital structure. Cash available for distribution from June 9, 2005 to December 31, 2005 was $6.1 million.

NON-CONTROLLING INTEREST

Non-controlling interest is not comparable for the prior periods due to the change in the capital structure of the Fund versus its predecessor. Non-controlling interest of $0.2 million for the period June 9 to December 31, 2005 represents the share of earnings for the period related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.



Other Performance Measures

CAPITAL EXPENDITURES

Capital expenditures for the year ended December 31, 2005 totaled $5.4 million. Maintenance capital expenditures totaled $3.7 million and include $2.1 million for engine purchases, $0.2 million for ground support equipment, $0.8 million for rotable spare parts, $0.5 million in leasehold improvements and furniture and fixtures and $0.1 million in computers and software. Proceeds on the disposal of used engines were $0.5 million. Growth capital expenditures totaled $1.7 million and include $0.9 million for rotable spare parts inventory, $0.6 million related to the hangar construction, maintenance equipment of $0.1 million, and $0.1 million for the purchase of ground support equipment. Of the total growth capital expenditures of $1.7 million during the year ended December 31, 2005, $0.6 million was for the period from June 9, 2005 to December 31, 2005 and includes the purchase of certain assets of AllCanada Express Inc.

FINANCIAL CONDITION

The following is a comparison of the financial condition of the fund as at December 31, 2005 to the financial position of the predecessor Cargojet Holdings Ltd. as at December 31, 2004 as disclosed in the prospectus dated June 1, 2005, and the financial position as at September 30, 2005 as disclosed in the interim financial statements of the Fund issued for the third quarter of 2005.

CASH

Cash increased by $2.6 million from the balance as at December 31, 2004 and decreased by $0.8 million from the balance as at September 30, 2005 to $0.4 million as at December 31, 2005. Included in the $0.8 million decrease in cash since September 30, 2005 is the amount paid for the balance of the issuance costs of the initial public offering not paid as at September 30, 2005. The sources and uses of cash are further discussed in the "Liquidity and Capital Resources" section.

ACCOUNTS RECEIVABLE

Accounts receivable increased by $3.9 million compared to the balance as at December 31, 2004 and by $3.2 million compared to the balance as at September 30, 2005 to $10.3 million as at December 31, 2005. The increase is primarily due to the increase in revenues and the timing of payments from customers as well as the timing of GST refunds. There was an initial lag time in the payments received from the customers related to the start up of the international flights, since this new source of revenue started close to the holiday season. Included in the accounts receivable balance as at December 31, 2005 is $0.3 million due from one of the airport authorities, for their share of the cost to build a new taxiway. The quality of the Fund's receivable balances and its current collections in managements' opinion remains excellent.

CAPITAL ASSETS

Capital assets increased by $2.0 million from December 31, 2004 to $28.5 million as at December 31, 2005. The increase was as a result of the purchase of $2.1 million for aircraft engines, additions to ground support equipment of $0.3 million, finalizations of the hangar construction of $0.6 million, additions to rotable spares of $1.7 million, maintenance equipment of $0.1 million, computers and software of $0.1 million and furniture, fixtures and leasehold improvements of $0.5 million. Proceeds on the disposal of used engines were $0.5 million. These additions were offset by amortization during the year ended December 31, 2005 of $2.9 million. The decrease in capital assets from September 30, 2005 of $0.5 million, relates to $0.8 million for additions to capital assets net of $0.5 million received for the sale of used aircraft engines, and offset by $0.8 million representing the amortization of capital assets .

ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable and accrued charges increased by $0.2 million from the balance as at December 31, 2004 and increased by $2.7 million from the balance as at September 30, 2005 to $12.0 million as at December 31, 2005. The increase is attributable to the timing of cash payments, including the timing of the payroll disbursement.

AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The aircraft heavy maintenance accrual increased by $0.7 million from December 31, 2004 to $2.1 million as at December 31, 2005. This is related solely to the timing difference between the accrual of $2.3 million and the actual heavy maintenance expense incurred of $1.5 million during the period. The aircraft heavy maintenance accrual increased by $0.6 million from September 30, 2005 to December 31, 2005. Again this is solely related to the timing difference between the heavy maintenance accrual of $0.7 million and the actual heavy maintenance expense of $0.01 million. Management expects that the heavy maintenance accrual is sufficient to meet the expenditure to be incurred during the next fiscal year.

WORKING CAPITAL POSITION

The Fund has a working capital deficit as at December 31, 2005, representing the difference between total current assets and current liabilities, of $2.0 million, an improvement of $15.2 million from December 31, 2004, and a reduction of $1.4 million from September 30, 2005. The increase from December 31, 2004 is primarily due to continued strong cash flows combined with the restructuring of the Fund's financing in contemplation of the initial public offering, which resulted in an increase of long-term debt after retiring short-term debt. The working capital was also affected by capital expenditures of $5.4 million as well as heavy maintenance expenditures of $1.5 million during the year ended December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the period June 9, 2005 to December 31, 2005 was $5.7 million. This increase in cash is primarily due to increased revenues, and the timing of customer payments, supplier payments, as well as the timing of the payroll disbursement. In addition, cash was provided by the increase in the amount payable to The Cargojet Group of Companies Employee Profit Share Plan Trust.

Cash provided by financing activities during the period June 9, 2005 to December 31, 2005 was $49.4 million, out of which $52.2 million was from the proceeds from the net issuance of Fund units, $1.5 million from an increase in long-term debt, off-set by $4.3 million used for distributions to unitholders.

Cash used in investing activities during the period June 9, 2005 to December 31, 2005 was $54.7 million, out of which $53.0 million was used for the acquisition of the net assets of Cargojet Holdings, and $1.7 million was used for additions to capital assets net of the proceeds of sale of used engines during the same period.

Cash provided by operating activities after net changes in non-cash working capital balances for the year ended December 31, 2005 was $6.1 million, compared to $6.8 million for the year ended December 31, 2004. This decrease is primarily due to the increase in accounts receivable balances for the year ended December 31, 2005 as a result of the timing of payments from existing customers, as well as the new customers added for the international operations that commenced towards the end of the year.

Cash provided by financing activities during the year ended December 31, 2005 was $53.9 million. The increase was due to the proceeds of $52.2 million from the issuance of Fund units net of issuance costs, $4.3 million used for distributions paid to unitholders, an increase of long-term debt of $12.8 million, which was offset by a reduction in shareholder advances and notes payable of $6.2 million and $0.6 million respectively. Cash used for financing activities during the quarter ended December 31, 2005 was $2.4 million, represented by $2.5 million used for the distributions paid to unit holders and $0.4 million used for additional issuance costs for the initial public offering, offset by proceeds from an increase in long-term debt of $0.4 million.

Cash used in investing activities during the year ended December 31, 2005 was $57.5 million. This was primarily represented by the acquisition of the net assets of Cargojet Holdings Ltd. equal to $52.6 million, net of bank indebtedness assumed of $0.4 million. Capital asset spending during the year ended December 31, 2005 was $5.4 million. Cash used in investing activities during the quarter ended December 31, 2005 was $0.3 million, represented by additions to capital assets of $0.8 million and proceeds on the disposal of used engines of $0.5 million during the quarter.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results.

Management anticipates that the funds available under the operating facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

DISTRIBUTIONS

Total distributions were $4.29 million for the period from April 25, 2005 to December 31, 2005. A distribution of $0.0917 per Income Fund unit, equal to $0.6 million, for the period December 1 to December 31, 2005 was declared payable to unit holders of record on December 31, 2005, payable on January 15, 2006. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period October 1, 2005 to December 31, 2005 was declared payable to Exchangeable LP unit holders of record on December 31, 2005, payable on January 15, 2006. Total distributions were $1.4 million for the period from April 25, 2005 to December 31, 2005 to the Exchangeable LP unit holders. The payout ratio for the period from April 25, 2005 to December 31, 2005 was 86%.

CASH AVAILABLE FOR DISTRIBUTION

Cash available for distribution is not comparable for prior periods due to the change in the Fund's capital structure. Cash available for distribution from June 9, 2005 to December 31, 2005 was $6.1 million.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Summary of Contractual Obligations

As at December 31, 2005 ($ thousands)	Payments due by Period					
	Total	2006	2007	2008	2009	2010
Long-term debt	$ 23,180	$ -	$ -	$ 23,180	$ -	$ -
Capital lease obligations	-	-	-	-	-	
Operating leases	16,901	6,079	4,449	3,634	2,723	16
Purchase obligations	-	-	-	-	-	
Other long-term obligations	-	-	-	-	-	
Total contractual obligations	$ 40,081	$ 6,079	$ 4,449	$ 26,814	$ 2,723	$ 16

CAPITAL RESOURCES

The Fund does not expect to make significant capital expenditures in the near future.

OFF BALANCE SHEET ARRANGEMENTS

The Fund has one off-balance sheet arrangement, an interest rate swap (see “Financial Instruments and Other Instruments”) in addition to those disclosed under “Summary of Contractual Obligations”.

TRANSACTIONS WITH RELATED PARTIES

For the period from June 9, 2005 to December 31, 2005, the Fund received revenues of $2.2 million and incurred costs associated with this revenue of $1.9 million. The accounts receivable balance owing from Starjet as at December 31, 2005 was $0.7 million. The Fund also accrued interest on the EPSP Trust loan of $0.1 million for the year ended December 31, 2005

SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Fund manages its operations in one primary business segment, which is providing air cargo services on both a scheduled and ACMI basis. The Fund also provides ACMI aircraft services to Starjet Canada. Primary operations are conducted in Canada with some USA and International operations. During the period from June 9, 2005 to December 31, 2005, the Fund had sales to three customers that represented approximately 54% of total sales.

CONTINGENCIES

The Fund has provided irrevocable standby letters of credit totaling $0.22 million to a financial institution and a supplier as security for its corporate credit cards and ongoing services to be provided. The letter of credit for $0.2 million expires on December 29, 2006 and the remainder on March 20, 2006.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund has entered into hedging transactions, which will be maturing on June 15, 2008, with a major Canadian financial institution in order to fix the interest rate at 6.89% during this period of time. The Fund has effectively achieved hedge accounting with respect to its current interest rate swap. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. As at December 31, 2005 the Fund did not have any foreign exchange contracts outstanding.

OUTLOOK

Demand for time-sensitive air cargo services continues to grow within Canada, as capacity available on commercial airlines continues to decrease and industry volumes continue to grow at above inflationary rates. Enhanced security regulations for air cargo, as recently announced by the Minister of Transport, may result in increased acceptance screening processes, particularly for air cargo carried in the belly of passenger aircraft and will lead to increased demand for air cargo services carried on all-cargo aircraft such as Cargojet's. Cargojet's fuel prices are fixed on a monthly basis by its major fuel suppliers and Cargojet adjusts it fuel surcharge accordingly to its customers. Management is confident that the Company will continue to fully recover any future increases in fuel costs.

Late in 2005, the Canadian and US governments reached agreement on a revised US/Canada Open Skies Agreement. As outlined in the Management Discussion and Analysis for the quarter ended September 30, 2005, the practice of allowing Canadian or US carriers to transport passengers or cargo between domestic points in the others' country, or cabotage, was not part of these discussions and is not part of the revised Agreement. Relaxation of Fifth Freedom capabilities --the ability to operate from a carriers home country to a second country and pick up passengers/cargo and continue to a third country--were included along with the introduction of co-terminalization for cargo carriers to operate an extension flight to a secondary point in the other country - but without the ability to carry domestic origin and destined cargo on the domestic leg of these transborder flights.

Cargojet does not believe that there is any significant threat to its current domestic time-sensitive overnight air cargo business as a result of any recent changes to the current Open Skies Agreement.

Cargojet recently expanded its service internationally with a new cargo service operating between Newark, New Jersey and Hamilton, Bermuda on a five-day per week basis as described previously in the section entitled Recent Events.

Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls; and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives, especially those that can increase cash flow and, accordingly, distributions. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional units.

Any decisions regarding the above, including potential increases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

CRITICAL ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates. The items requiring the use of management estimates are the determination of aircraft heavy maintenance reserves, allowance for doubtful accounts, obsolescence of spare parts, materials and supplies, and the valuation of intangible assets.

END NOTES

(A) All references to "EBITDA" in Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, income taxes, future income tax recovery, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability, and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, and future income tax recovery), or non-operating (in the case of interest on long-term debt, income taxes, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals). EBITDA is a useful financial and operating measure for investors as it represents a starting point in the determination of distributable cash (B). The underlying reasons for exclusion of each item are as follows:

Amortization - as a non-cash item amortization has no impact on the determination of distributable cash.

Interest on long-term debt - interest on long-term debt is a function of the Fund's treasury/financing activities and represents a different class of expense than those included in EBITDA.

Income taxes - income taxes are a function of tax laws and rates and are affected by matters, which are separate from the daily operations of the Fund.

Future income tax recovery - the calculation of future income tax recoveries are a function of temporary differences between the financial reporting and the tax basis for calculating tax expense and are separate from the daily operations of the Fund.

Non-controlling Interest - non-controlling interest represents a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP Units. Accordingly non-controlling interest represents a different class of expense than those included in EBITDA.

Employee profit sharing plan - the employee profit sharing plan expense represents amounts previously paid to management in the predecessor company and are not considered an expense indicative of continuing operations. The plan was discontinued at the closing of the initial public offering; accordingly this expense represents a different class of expense than those included in EBITDA.

Stock based compensation plan - stock based compensation plan expense represents compensation paid to employees in the predecessor company, accordingly this expense represents a different class of expense than those included in EBITDA. The plan was discontinued at the closing of the initial public offering.

Aircraft heavy maintenance accruals - aircraft heavy maintenance accruals represent an estimate of the expense related to the overhaul of the Fund's aircraft and therefore is considered a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance incurred in the period; accordingly this expense represents a different class of expense than those included in EBITDA.

(B) The Fund has adopted a measurement called distributable cash to supplement net income as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other issuers. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unit holders and Exchangeable LP unit holders. Exchangeable LP unit holders are presented as non-controlling interest in the consolidated financial statements of the Fund, however management of the Fund has elected to include the holdings of the Exchangeable LP unit holders in the calculation of distributable cash as Exchangeable LP unit holders distributions are economically equivalent to those received by trust unit holders and Exchangeable LP unit holders are exchangeable on a one-to-one basis for trust units of the Fund. Distributable cash is calculated as EBITDA [A] less maintenance capital expenditures, current income taxes and interest on long-term debt. Distributable cash is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "distributable cash" have the meaning set out in this note.

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ACCREDITATIONS

ISO 9001:2000

International Organization for Standardization –
"The world's largest development of standards, principal activity is the development of technical records."

Air Transportation Association of Canada –
"Supports their members in the pursuit of a safe, world-leading and Canadian air transport industry."

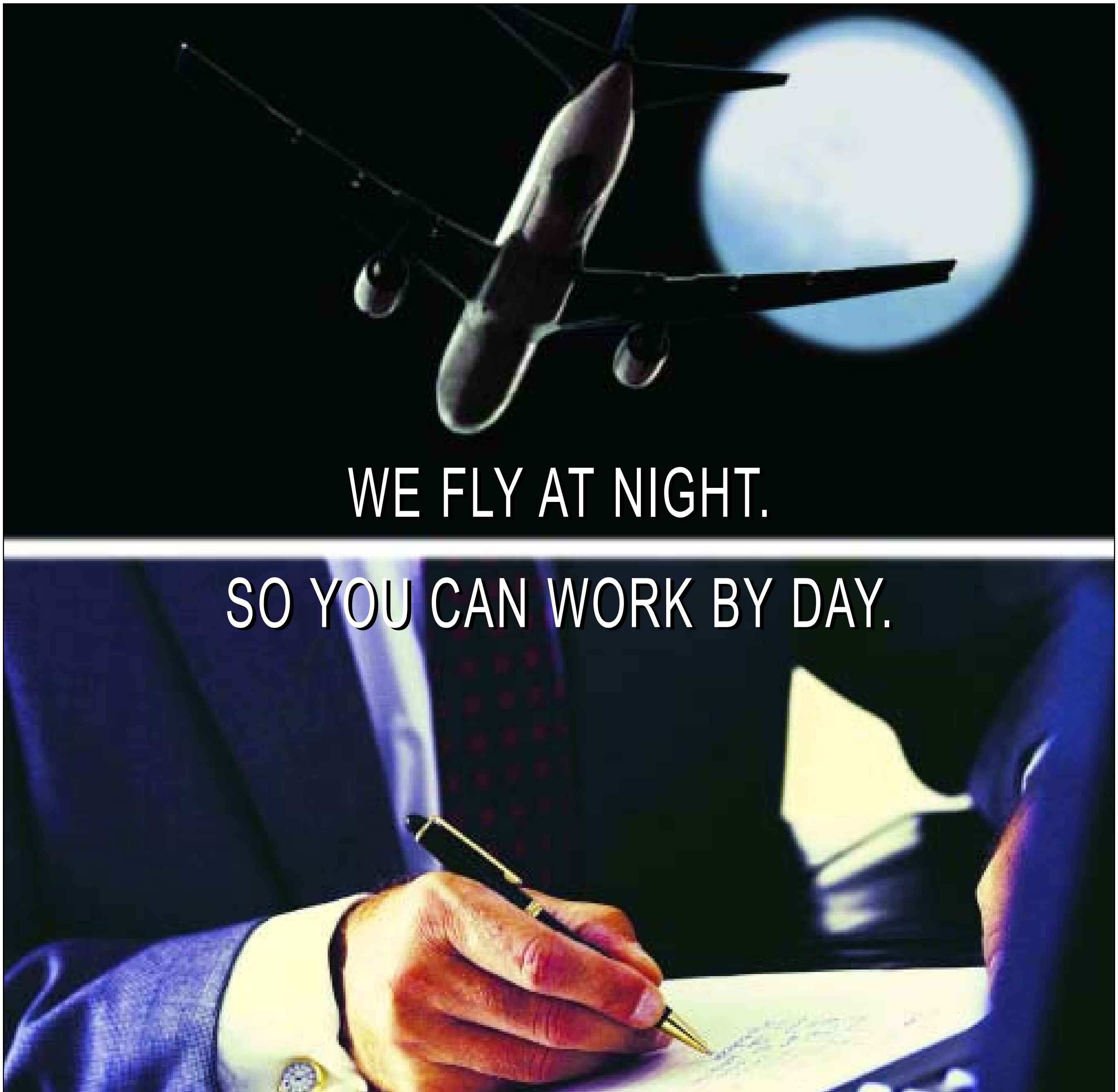
International Air Transportation Association –
"Represents, leads and serves the global airline industry."

Canadian International Freight Forwarders Association –
"An industry association to meet the professional needs and demands of their members."

A Member of
The International Air Cargo Association

The International Air Cargo Association –
"Is pledged to support and assist progressive liberalization of the global market."

ON TIME PERFORMANCE


WE FLY AT NIGHT.
SO YOU CAN WORK BY DAY.

Management's Report to the Unitholders

The consolidated financial statements of the Cargojet Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of Cargojet Income Fund has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

Ajay Virmani

Ajay Virmani

President and Chief Executive Officer
March 2006

Auditors' Report to the Unitholders

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

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Fax: 416-601-6151
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To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheet of Cargojet Income Fund as at December 31, 2005 and the consolidated statements of earnings and of cash flows for the period from incorporation, April 25, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the period from incorporation, April 25, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
February 24, 2006

Consolidated Financial Statements of

CARGOJET INCOME FUND

For the period from incorporation,
April 25, 2005 to December 31, 2005

CARGOJET INCOME FUND
Consolidated Balance Sheet
December 31, 2005

ASSETS		
CURRENT		
Cash	$	**359,502**
Accounts receivable		**10,323,444**
Spare parts, materials and supplies		**1,237,135**
Prepaid expenses and deposits		**1,973,957**
Due from related company (Note 11)		**744,651**
		14,638,689
CAPITAL ASSETS (Note 4)		**28,536,834**
INTANGIBLE ASSETS (Note 5)		**82,244,184**
	$	**125,419,707**
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 7)	$	**12,027,636**
Distributions payable to unitholders (Note 15)		**1,228,572**
Future income taxes (Note 9)		**1,492,356**
Current portion of aircraft heavy maintenance accrual (Note 8)		**1,847,691**
		16,596,255
LONG-TERM DEBT (Note 6)		**23,179,862**
AIRCRAFT HEAVY MAINTENANCE ACCRUAL (Note 8)		**250,000**
FUTURE INCOME TAXES (Note 9)		**5,667,211**
		45,693,328
NON-CONTROLLING INTEREST (Note 10(b))		**21,104,782**
UNITHOLDERS' EQUITY		
UNITHOLDERS' CAPITAL (Note 10(a))		**62,295,904**
DEFICIT		**(3,674,307)**
		58,621,597
	$	**125,419,707**

On behalf of the Trustees:

Ajay Virmani
President and Chief Executive Officer

John Webster
Trustee

CARGOJET INCOME FUND
Consolidated Statement of Earnings and Deficit
For the period from incorporation, April 25, 2005 to December 31, 2005

REVENUES	$	**69,295,475**
DIRECT EXPENSES		**55,089,462**
		14,206,013
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing		**395,615**
General and administrative		**7,730,512**
Interest, net		**958,593**
Amortization of capital assets		**178,090**
Amortization of intangible assets		**5,761,792**
		15,024,602
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST		**(818,589)**
FUTURE INCOME TAX RECOVERY (Note 9)		**1,434,020**
EARNINGS BEFORE NON-CONTROLLING INTEREST		**615,431**
NON-CONTROLLING INTEREST (Note 10(b))		**153,858**
NET EARNINGS		**461,573**
DISTRIBUTIONS DECLARED IN THE PERIOD (Note 15)		**(4,135,880)**
DEFICIT, END OF PERIOD	$	**(3,674,307)**
EARNINGS PER TRUST UNIT - basic	$	**0.07**
EARNINGS PER TRUST UNIT - diluted (Note 10(c))	$	**0.07**
AVERAGE NUMBER OF TRUST UNITS OUTSTANDING - BASIC (in thousands of units)		**6,699**
AVERAGE NUMBER OF TRUST UNITS OUTSTANDING - DILUTED (in thousands of units)		**8,932**

CARGOJET INCOME FUND
Consolidated Statement of Cash Flows
For the period from incorporation, April 25, 2005 to December 31, 2005

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	$	**461,573**
Items not affecting cash		
Amortization of capital assets		**1,730,990**
Amortization of intangible assets		**5,761,792**
Future income taxes		**(1,434,020)**
Deferred line maintenance charges		**38,367**
Non-controlling interest		**153,858**
Aircraft heavy maintenance accrual		**1,459,526**
Aircraft heavy maintenance expenditures		**(619,769)**
		7,552,317
Changes in non-cash working capital items		
Accounts receivable		**(3,008,660)**
Spare parts, materials and supplies		**(183,800)**
Prepaid expenses and deposits		**414,273**
Due from related company		**(57,827)**
Accounts payable and accrued charges		**1,388,608**
Income taxes payable		**(415,922)**
		5,688,989
FINANCING		
Net increase in long-term debt		**1,469,005**
Proceeds from issuance of Fund Units net of issuance costs		**52,199,291**
Distributions paid to unitholders and non-controlling interest		**(4,285,934)**
		49,382,362
INVESTING		
Acquisition of net assets of Cargojet Holding Ltd. including bank indebtedness of $424,970		**(52,991,784)**
Proceeds from disposal of capital assets		**515,003**
Additions to capital assets		**(2,235,068)**
		(54,711,849)
NET CASH INFLOW AND CASH END OF PERIOD	$	**359,502**
SUPPLEMENTARY FINANCIAL INFORMATION		
Interest paid	$	**926,352**
Income taxes paid	$	**460,563**
Distributions payable to income fund unitholders	$	**614,286**
Distributions payable to exchangeable unitholders	$	**614,286**
Issuance of Fund Units and Exchangeable LP Units on acquisition of net assets of Cargojet Holdings Ltd.	$	**29,772,730**
Overallotment issued to redeem non-controlling interest	$	**2,977,270**

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
For the period from incorporation, April 25, 2005 to December 31, 2005

1. NATURE OF THE BUSINESS

Cargojet Income Fund (the "Fund") is an unincorporated opened-ended limited purpose trust established under the laws of Ontario pursuant to a Declaration of Trust dated April 25, 2005. The Fund was created to invest in Cargojet Holdings Ltd. (the "Company" or "Cargojet"). The Fund remained inactive until it acquired all of the shares of Cargojet on June 9, 2005.

The Fund provides domestic and transborder air cargo services.

2. INITIAL PUBLIC OFFERING AND ACQUISITION

On June 1, 2005, the Fund completed an initial public offering and the sale of 5,954,545 trust units (the "Units") for $10.00 per unit, for total gross proceeds of $59,545,450. The cost of issuing the units pre-over-allotment was $7,346,159 (prior to the recording the effect of future income taxes of $2,653,433) resulting in net cash proceeds of $52,199,291.

On June 9, 2005, in conjunction with the initial public offering, the Fund, through a newly formed subsidiary, acquired all of the outstanding shares of Cargojet. Cargojet was amalgamated with its new parent company to form a new company also called Cargojet. Consideration for the acquisition was comprised of cash of $52,566,814, Units of the Fund with an ascribed value of $4,465,910 and 2,530,682 Exchangeable LP Units, with an ascribed value of $25,306,820, in the Fund's wholly-owned subsidiary, Cargojet Holdings Limited Partnership ("CHLP").

The Fund granted an over-allotment option to the underwriters to purchase up to 297,727 additional Units on the same terms as the initial public offering. On June 30, 2005, the over-allotment option was exercised in full with net proceeds from the exercise used to repurchase 297,727 exchangeable units from certain former shareholders of Cargojet at $10.00 per unit.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

For the period from incorporation, April 25, 2005 to December 31, 2005

2. INITIAL PUBLIC OFFERING AND ACQUISITION (continued)

The acquisition was accounted for by the purchase method with the results of Cargojet's operations included in the Fund's earnings from the date of acquisition. These consolidated financial statements reflect the assets and liabilities of Cargojet at assigned fair values as follows:

Assets and liabilities acquired		
Accounts receivable	$	7,314,784
Spare parts, materials and supplies		1,053,335
Prepaid expenses and deposits		2,388,230
Due from related company		686,824
Capital assets		28,547,759
Deferred line maintenance charges		38,367
Licences		1,000,000
Customer relationships		38,113,600
Non-compete agreements		2,722,400
Goodwill		46,169,976
Bank indebtedness		(424,970)
Accounts payable and accrued charges		(10,639,028)
Income taxes payable		(415,922)
Long-term debt		(21,710,857)
Aircraft heavy maintenance accrual		(1,257,934)
Future income taxes		(11,247,020)
	$	82,339,544

Consideration		
Cash	$	52,566,814
Fund units (446,591 Fund units)		4,465,910
Exchangeable LP units (2,530,682 Exchangeable LP units)		25,306,820
	$	82,339,544

The allocation of the purchase price discrepancy, representing the excess of the purchase price, including acquisition costs, over the net book value of the net assets acquired, in the amount of $76,669,976 is allocated as follows:

Goodwill	$	46,169,976
Customer relationships		38,113,600
Non-compete agreements		2,722,400
Licenses		500,000
Future income taxes		(10,836,000)
	$	76,669,976

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
For the period from incorporation, April 25, 2005 to December 31, 2005

2. INITIAL PUBLIC OFFERING AND ACQUISITION (continued)

As at December 31, 2005, the allocation of the purchase price had not been finalized, as the current purchase price allocation may potentially be further adjusted for the identification of additional intangible assets. Adjustments that increase or decrease the intangible assets will be offset to goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly owned subsidiary Cargojet Operating Trust and its 75% owned subsidiary Cargojet Holdings Limited Partnership ("CHLP") and its wholly owned subsidiaries Cargojet Holdings Ltd. and Cargojet Partnership.

Spare parts, materials and supplies

Spare parts, materials and supplies are valued at average cost less provision for obsolescence.

Capital assets

Capital assets, are recorded at cost and are amortized using the declining-balance basis, except for leasehold improvements and engines which are amortized on the straight-line basis, at the following rates per annum:

Aircraft	-	7-1/2%
Engines	-	engine cycles
Ground equipment	-	20%
Rotable spares	-	7-1/2%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	Lease term
Vehicles	-	30%
Hangar facility	-	10%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Goodwill is created when the Fund acquires a business. It represents the excess, at the dates of acquisition, of the cost of the acquired business over the fair value of the net identifiable assets acquired.

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting units goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the consolidated statement of earnings and deficit before income taxes and non-controlling interest.

Intangible assets, such as licenses, that have an indefinite useful life, are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the consolidated statement of earnings and deficit for the excess, if any.

Intangible assets, such as customer relationships and non-compete agreements, that have a definite life are capitalized and are amortized over a four-year period and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

The Fund adopted the Canadian accounting standard for impairment of long-lived assets, which requires that an impairment loss should be recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

The Fund has determined that there was no impairment of long-lived assets at December 31, 2005.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Aircraft heavy maintenance accrual

The Fund provides for airframe overhaul expenses for each owned and certain leased aircraft based on a provision for the scheduled costs. These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls. Actual results could differ from those estimates and differences could be significant. Engine overhauls on owned aircraft are not accrued for as it is the Fund's policy to purchase or lease reconditioned engines as required by the maintenance schedule and amortize such engines over the related number of engine cycles used.

The Fund makes payments representing a portion of engine and airframe overhaul expenses to certain aircraft lessors. These payments are expensed. The excess of the actual costs incurred for future overhaul expenses over payments made is accrued when the amount is determinable.

Income taxes

The Fund follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred line maintenance charges

Deferred line maintenance charges are recorded at cost and are amortized over the period of the related service contracts.

Non-controlling interest

Non-controlling interest represents a direct non-controlling equity interest in the Fund through exchangeable limited partnership units in CHLP. Exchangeable unit holders are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value which the Fund's trust units were issued to the public through the initial public offering. Exchanges of exchangeable units are recorded at the carrying value of the exchangeable units at issuance net of net earnings and distributions attributable to participating exchangeable units to the date of exchange.

Revenue recognition

Revenue is recognized when the transportation services are provided.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at period end. Gains or losses resulting from such translations are included in income.

Transactions in foreign currencies throughout the period have been converted at the exchange rate prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based and are designated as hedges of the interest payable on the debt. While effective as hedges they are accounted for under the accrual method. The net amount receivable or payable in respect of each swap is included in accounts receivable or accounts payable and accrued charges respectively in the balance sheet and recognized as an adjustment to interest, net in the statement of earnings and deficit.

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts and are designated as hedges of anticipated U.S. dollar denominated purchases. While effective as hedges they are accounted for under the settlement method. The gain or loss on settlement of a contract is recognized as an adjustment to cost of the purchased items and is recognized in the statement of earnings and deficit when this item is expensed.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred and recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is extinguished, matures or ceases to be probable prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in the statement of earnings. Any non-hedging derivative financial instruments are marked to market at each reporting date and the resulting adjustment is recognized as part of general and administrative expenses in the statement of earnings and deficit.

Guarantees

The Fund has adopted Accounting Guideline 14, - Disclosure of Guarantees - (“AcG-14”), which addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees.

The Fund has disclosed the information related to the guarantees in their current contracts in Note 14.

Management’s use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The items requiring the use of management estimates are the determination of the aircraft heavy maintenance reserve, allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies and the valuation of intangible assets.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
For the period from incorporation, April 25, 2005 to December 31, 2005

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value
Aircraft and engines	$ 16,628,774	$ 739,307	$ 15,889,467
Ground equipment	1,928,135	206,822	1,721,313
Rotable spares	5,428,827	210,720	5,218,107
Computer hardware and software	615,348	94,101	521,247
Furniture and fixtures	434,151	45,437	388,714
Leasehold improvements	1,756,496	223,422	1,533,074
Vehicles	135,972	23,022	112,950
Hangar facility	3,340,121	188,159	3,151,962
	$ 30,267,824	$ 1,730,990	$ 28,536,834

Amortization expense consists of amounts charged under the following classification:

Direct expenses	$ 1,552,900
Selling, general and administrative expenses	178,090
	$ 1,730,990

5. INTANGIBLE ASSETS

	Rate	Cost	Accumulated Amortization	Net Book Value
Goodwill		$ 46,169,976	$ -	$ 46,169,976
Licences		1,000,000		1,000,000
Customer Relationship	4 years	38,113,600	5,377,672	32,735,928
Non-compete agreements	4 years	2,722,400	384,120	2,338,280
		$ 88,005,976	$ 5,761,792	$ 82,244,184

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
For the period from incorporation, April 25, 2005 to December 31, 2005

6. BANK INDEBTEDNESS

The Fund has established a revolving credit facility with a Canadian chartered bank to a maximum of $28.0 million which bears interest at bank prime plus 1.7% and is repayable May 30, 2007. The Fund has entered into a hedging relationship with a major Canadian financial institution to manage most of the interest rate exposure with respect to their floating rate debt (Note 13).

The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

- general security agreement over all assets of the Fund.
- guarantee and postponement of claim to a maximum of $35.0 million in favour of Cargojet Partnership and certain other entities of the Fund.
- assignment of insurance proceeds, loss if any, payable to the bank.

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Trade payables and related accrued charges	$	**8,493,027**
Advances from the EPSP Trust		**1,900,000**
Payroll and benefits		**1,634,609**
	$	**12,027,636**

Advances from the Cargojet Group of Companies Employee Profit Sharing Plan Trust (“EPSP Trust”), an entity established prior to the acquisition of Cargojet for the benefit of certain senior executives of the predecessor company, bear interest at 8% per annum and are repayable on demand.

8. AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The Fund provides for airframe overhaul expenses for each owned and certain leased aircraft. These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls. As at December 31, 2005, the estimated liability totalled 2,097,691, of which $1,847,691 is expected to be expended in the next fiscal year.

9. INCOME TAXES

The tax effect of significant temporary differences is as follows:

Capital assets	$	2,303,310
Intangible assets		8,288,895
Operating loss carryforwards		(408,131)
Financing costs		(2,357,924)
Expenses incurred, not currently deductible		(666,583)
Future income tax liability		7,159,567
Current portion of future income tax liability		1,492,356
Future income tax liability	$	5,667,211

A reconciliation between the Fund's statutory and effective tax rates is as follows:

Loss before income taxes and non-controlling interest	$	(818,589)
Income tax recovery at the combined basic rate	$	(295,674)
Tax on income attributable to trust unitholders and exchangeable LP unitholders		(1,721,756)
Tax on amortization of intangible assets		552,244
Permanent and other differences		31,166
Income tax recovery	$	(1,434,020)

10. UNITHOLDERS' EQUITY

The beneficial interests in the Fund is divided into interests of two classes, described and designated as “Units” and “Special Voting Units”, respectively. An unlimited number of trust Units and Special Voting Units may be authorized and issued pursuant to the Declaration of Trust.

Each trust Unit represents an equal voting, fractional, and undivided beneficial interest in the Fund. All trust Units are transferable and share equally in all distributions from the Fund whether of net earnings, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. The trust Units are redeemable at any time on demand by the holders at fair value as determined by and subject to the conditions of the Declaration of Trust to a maximum of $50,000 per calendar quarter.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

For the period from incorporation, April 25, 2005 to December 31, 2005

10. UNITHOLDERS' EQUITY (continued)

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net earnings, net realized gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Special Voting Units will only be issued to the holders of Class A limited partnership units of the CHLP ("Exchangeable LP Units"), for the purpose of providing voting rights to these Special Voting Unit holders, with respect to the Fund. Each Special Voting Unit will entitle the holder to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange of the Exchangeable LP Unit to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit for Units, the related Special Voting Unit will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any further rights.

(a) Trust Units

	Number	Amount
Issued on initial public offering	5,954,545	$ 59,545,450
Fund Units	446,591	4,465,910
Exercise of over-allotment	297,727	2,977,270
	6,698,863	66,988,630
Issuance costs, net of future income taxes of $2,653,433		(4,692,726)
Unitholders' equity, end of period	6,698,863	$ 62,295,904

(b) Non-controlling interest

	Number	Amount
Exchangeable LP units issued on acquisition of Cargojet Holdings Ltd.	2,530,682	$ 25,306,820
Exercise of over-allotment	(297,727)	(2,977,270)
Share of earnings of the CHLP		153,858
Distributions declared in the period (Note 15)		(1,378,626)
Non-controlling interest, end of period	2,232,955	$ 21,104,782

(c) Diluted earnings per trust unit

For the purpose of determining diluted earnings per trust unit the weighted average number of Trust Units and Exchangeable LP Units have been combined.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
For the period from incorporation, April 25, 2005 to December 31, 2005

11. RELATED PARTY TRANSACTIONS

The Fund had the following transactions with a related company, Starjet Airways Ltd. ("Starjet"), a company controlled by the Fund's Chief Executive Officer.

Revenues associated with passenger air service	$ 2,185,897
Cost of sales associated with the stated revenues	$ 1,920,325

During the period, the Fund further accrued interest on the EPSP Trust (Note 7) loan of approximately $87,000.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts due from the related company are in the nature of trade, are non-interest bearing and are due on demand.

12. COMMITMENTS AND CONTINGENCY

Commitments

The Fund is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

2006	$ 6,078,814
2007	4,449,354
2008	3,633,882
2009	2,723,493
2010	15,522
	$ 16,901,065

In addition, subsequent to the period end, the Fund committed to an operating lease for one additional aircraft with a term of 36 months. The minimum lease payments under this operating lease range from approximately $ 977,000 to $ 1,082,000 annually, throughout the term. The annual lease payments are not recorded in the above commitments.

Contingency

The Fund has provided irrevocable standby letters of credit totaling $220,000 to a financial institution and a supplier as security for its corporate credit cards and ongoing services to be provided. The letters of credit expire as follows:

December 29, 2006	$ 200,000
March 20, 2006	20,000
	$ 220,000

13. FINANCIAL INSTRUMENTS

Fair value

The fair value of all financial assets and liabilities approximate their carrying value based on management estimates except as to the fair value of the interest rate swap as described below.

Credit risk

The Fund is subject to risk of non-payment of accounts receivable. The Fund mitigates this risk by monitoring the credit worthiness of its customers and limiting its concentration of receivables to any one specific group of customers. At December 31, 2005, approximately 29% of the accounts receivable balance was receivable from two customers.

Foreign exchange risk

The Fund undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. As at December 31, 2005 the Fund had no foreign exchange forward contracts outstanding.

The foreign exchange loss during the period was $46,596.

Interest rate risk

The Fund has long-term floating rate debt which creates an exposure to fluctuations in interest rates (Note 6).

The Fund uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2005, the Fund had one swap contract in place with a major Canadian financial institution to manage most of the interest rate exposure in respect of these floating rate debts. The swap has a notional amount of $21,000,000. The Fund pays floating rate interest at BA-CDOR and receives fixed rate interest at 3.69% plus a stamping fee on a monthly basis and the swap matures on June 15, 2008.

At December 31, 2005, this interest rate swap contract had a positive fair value, or value favourable to the Fund of approximately $193,000 compared to a recorded liability of approximately $3,400. The swap is an effective hedge as at December 31, 2005 and therefore this unrecognized gain has not been taken to earnings.

Commodity risk

The Fund is exposed to commodity risk for variations in fuel costs. The Fund does not use derivative instruments to mitigate this risk.

14. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and or officers of the Fund for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Fund has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, underwriting agreements, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

15. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the period ended were $4,135,880 to unitholders and $1,378,626 to Exchangeable LP unitholders.

15. DISTRIBUTION (continued)

Distributions payable at December 31, 2005 are as follows:

Units	Period	Record date	Payment Date	Per Unit	Distributions Amount
Income Fund units	December 1 to December 31, 2005	December 31, 2005	**Jan. 13, 2006**	**$ 0.0917**	**$ 614,286**
Exchangeable LP units	October 1 to December 31, 2005	December 31, 2005	**Jan. 13, 2006**	**$ 0.2751**	**614,286**
					$ 1,228,572

At the end of each fiscal quarter, including the fiscal quarter ending on the fiscal year end, distributions will be made in the following order of priority:

a) First, in payment of the monthly distribution to the holders of Income Fund Units for the month then ended;

b) Second, to the holders of Income Fund Units to the extent that the monthly per unit distributions in respect of the twelve month period then ended were not made or were made in amounts less than approximately $0.09 per unit per month, the amount of any deficiency;

c) Third, to the holders of Exchangeable LP Units in a per unit amount of approximately $0.27 per fiscal quarter, if there is insufficient cash to make distributions in such amount, such lesser amount as is determinable;

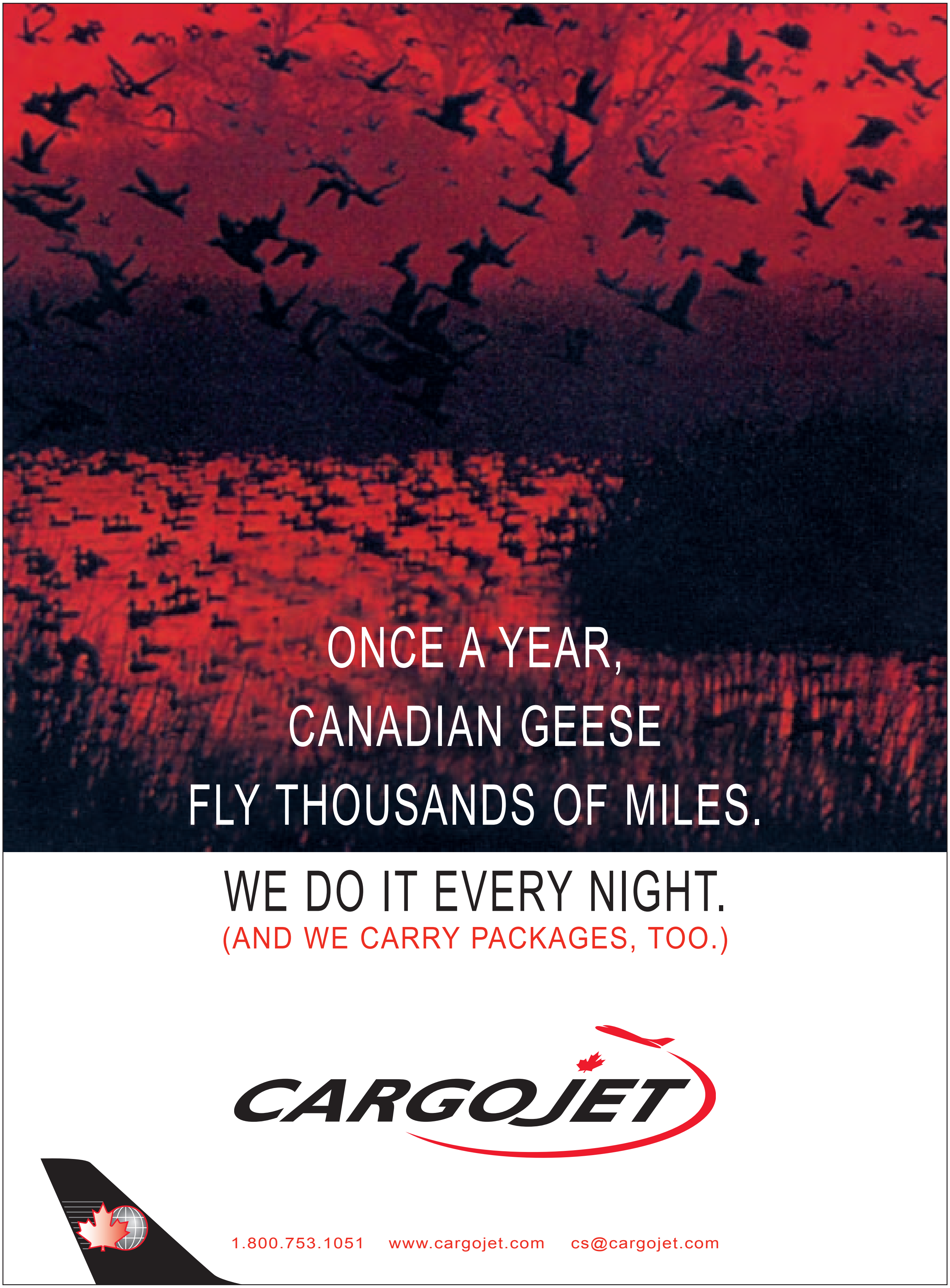
d) Fourth, to the holders of Exchangeable LP Units to the extent that the per unit distributions in respect of any fiscal quarter(s) during the twelve month period then ended were not made or were made in amounts less than approximately $0.27 per Exchangeable LP Unit, the amount of any deficiency; and

e) Fifth, to the extent of any excess, proportionately to the holders of the Income Fund Units and the Exchangeable LP Units.

16. SEGMENTED INFORMATION

The Fund manages its operations in one business segment, which is providing domestic and trans-border air cargo services. All operations are conducted primarily in Canada.

During the period, the Fund had sales to three customers that represented 54% of total sales.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Officers of the GP

Ajay Virmani, MBA
President, Chief Executive Officer
and Director of the GP

Dan Mills
Chief Financial Officer,
Corporate Secretary,
Executive Vice-President
and Director of the GP

Jamie Porteous
Executive Vice-President,
Sales and Service of the GP

Officers of the GP

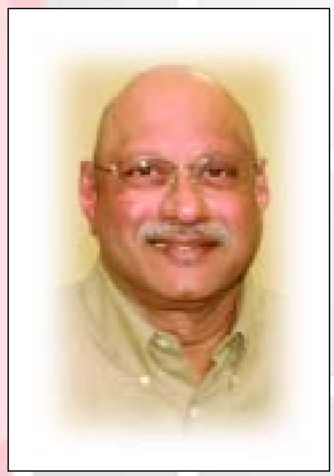
George Sugar
Vice President, of the GP

Alan Pidgeon
Senior Vice President, Airways

Anthony Joseph
Corporate Controller of the GP

Trustees of the Fund & Directors of the GP

Craig Baxter
Trustee, Director of the GP

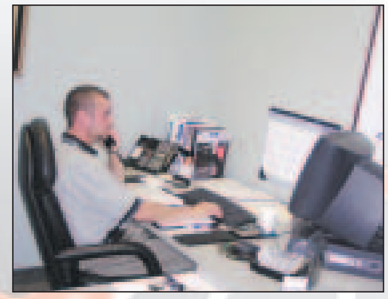


Terence M. Francis
Trustee, Director of the GP

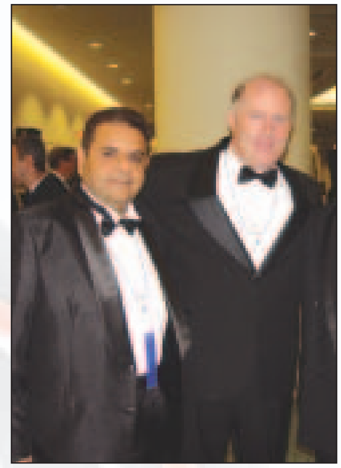
John P. Webster
Trustee, Director of the GP

“Team

Ajay Virmani and
Ken Allen - President of DHL Canada



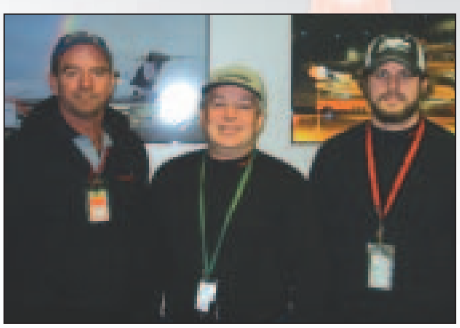
Chris Ryan - Senior Operations Manager



Ajay Virmani and
Bruce Rodgers - President of Sameday

Edmonton Team

St. John’s Team

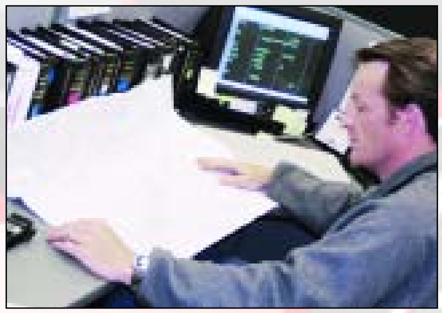


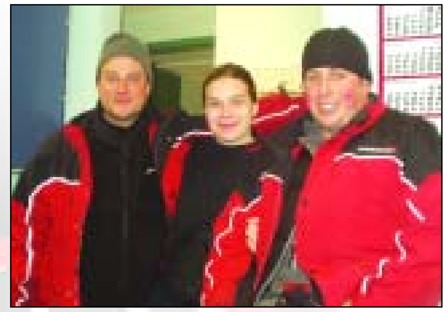
Halifax Team

The Cargojet Hockey Team

Cargojet”


Ajay Virmani and
Glenn Rice - President of UPS


Jason Allen - Director Flight Operations


Ottawa Team


Montreal Team


Team Cargojet & Distinguished Guests

Calgary Team


Rob Bristol,
participating in
Halloween dress up day
as a couch potato

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